

ROMULUS HOUSING COMMISSION
ROMULUS, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Romulus Housing Commission	County Wayne
Audit Date 12/31/04	Opinion Date 8/23/05	Date Accountant Report Submitted to State: 9/2/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			
Street Address 1107 E. Eighth Street	City Traverse City	State MI	ZIP 49686
Accountant Signature <i>Barry E. Gaudette, CPA</i>		Date 9/2/05	

ROMULUS HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Romulus Housing Commission
Romulus, Michigan

We have audited the accompanying statements of financial statements of the business-type activities of the Romulus Housing Commission, Michigan, a component unit of the City of Romulus, as of and for the year ended December 31, 2004, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Romulus Housing Commission, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of December 31, 2004.

Romulus Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2005 on our consideration of Romulus Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise Romulus Housing Commission, Michigan's basic financial statements. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Barry E. Landolt, CPA, PC

August 23, 2005

ROMULUS HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
December 31, 2004
=====

The Romulus Housing Commission, created in 1971, by the City of Romulus provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Romulus Housing Commission consists of two programs. The first is owned housing, consisting of 100 units of public housing and the second is the capital funding program. Romulus Housing Commission had total revenues of \$787,447 that includes \$171,119 in rental payments and \$610,552 in federal assistance. Total operating expenses were \$638,115, that includes \$172,445 in administrative expenses, \$50,759 in utilities, \$182,626 in ordinary maintenance expenses, and \$135,113 in depreciation expense. Total revenues were more than the prior year by \$183,248, due to the Capital Fund program closing out several years in the 2004 fiscal year. Operating expenses decreased by \$2,093 from the prior year due, in part, to protective services decreasing by \$25,000.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$2,191,354. The Housing Commission's total net assets increased by \$149,332 from the prior year. The increase is attributable in part to the increase in federal assistance due to the closing of several years of the capital fund program. The current assets increase of \$45,593 and the current liabilities increase of \$34,563, resulted in a net change of \$80,156. This increase can mostly be attributed to the cash flows increase of \$43,123 this calendar year.

Total assets of the Housing Commission were \$2,421,161 including \$462,352 of current assets and \$1,958,809 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$189,173. Assets increased by \$196,544 from the prior year due in part to the increase in federal assistance.

The financial condition of the Housing Commission has improved from the prior year. The Housing Commission remains very strong with a balance of \$462,352 in current assets.

Financial Highlights (continued)

Executive Director comments:

In response to an analysis of the Housing Commission's overall financial position and results of operations to assess whether financial position has improved or deteriorated during the year, including reasons for significant changes from the prior year and important economic factors that significantly affected operating results.

Answer: For the year ended December 31, 2004, I believe the financial statements presented represent the fair presentation in the financial position, results of operations, and cash flows in conformity with Generally accepted Accounting Principles (GAAP).

A description of significant capital assets and long-term debt activity, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

Answer: All Capital Fund Program funds are expected to be obligated the week of August 22, 2005 and expended within the time frame allowed as demonstrated in previous Capital Fund Programs, including Capital Fund Programs for 2001, 2002 and 2003. It is the intent of the Housing Commission to continue to apply for Capital Fund Program funding to help maintain the public housing facilities. There is no long-term debt activity.

A description of currently known facts decisions or conditions that are expected to have a significant effect on financial position or results of operations.

Answer: In an effort to reduce an operating budget loss, the Romulus Housing Commission allocated a portion of the 2004 Capital Fund Program account 1406 to the Housing Commission operating costs.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 462,352	\$ 416,759	\$ 45,593
Property and equipment	<u>1,958,809</u>	<u>1,807,858</u>	<u>150,951</u>
Total assets	<u>\$2,421,161</u>	<u>\$2,224,617</u>	<u>\$ 196,544</u>
Current liabilities	\$ 189,173	\$ 154,610	\$ 34,563
Noncurrent liabilities	<u>40,634</u>	<u>27,985</u>	<u>12,649</u>
Total liabilities	<u>229,807</u>	<u>182,595</u>	<u>47,212</u>
Net assets:			
Invested in capital assets	1,958,809	1,807,858	150,951
Unrestricted net assets	<u>232,545</u>	<u>234,164</u>	<u>(1,619)</u>
Total net assets	<u>2,191,354</u>	<u>2,042,022</u>	<u>149,332</u>
Total liabilities and net assets	<u>\$2,421,161</u>	<u>\$2,224,617</u>	<u>\$ 196,544</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ <u>171,119</u>	\$ <u>173,225</u>	\$ (<u>2,106</u>)
Total operating revenues	<u>171,119</u>	<u>173,225</u>	(<u>2,106</u>)
Operating expenses:			
Administration	172,445	174,938	(2,493)
Tenant services	33,744	33,661	83
Utilities	50,759	44,386	6,373
Ordinary maintenance and operation	182,626	156,310	26,316
Protective services		25,000	(25,000)
General expenses	70,470	59,204	11,266
Extraordinary maintenance		12,000	(12,000)
Casualty losses	(7,042)	4,080	(11,122)
Depreciation	<u>135,113</u>	<u>130,629</u>	<u>4,484</u>
Total operating expenses	<u>638,115</u>	<u>640,208</u>	(<u>2,093</u>)
Operating income(loss)	<u>(466,996)</u>	<u>(466,983)</u>	(<u>13</u>)
Non-operating revenue (expense):			
Interest income	2,072	2,903	(831)
Operating grants	324,489	424,036	(99,547)
Capital grants	286,063		286,063
Other income	<u>3,704</u>	<u>4,035</u>	(<u>331</u>)
Total nonoperating revenue (expense)	<u>616,328</u>	<u>430,974</u>	<u>185,354</u>
Change in Net Assets	<u>\$ 149,332</u>	<u>\$ (36,009)</u>	<u>\$ 185,341</u>

FINANCIAL STATEMENTS

ROMULUS HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
December 31, 2004
=====

ASSETS

Current Assets:	
Cash	\$ 317,162
Accounts receivable-HUD other projects	67,368
Accounts receivable-dwelling rents	6,439
Allowance for doubtful accounts	(5,058)
Prepaid expenses	9,073
Inventories	<u>67,368</u>
Total Current Assets	<u>462,352</u>
Property, Plant, and Equipment:	
Land	188,150
Buildings	1,512,998
Equipment	64,193
Building improvements	1,622,495
Construction in progress	<u>156,659</u>
	3,544,495
Less: accumulated depreciation	<u>(1,585,686)</u>
Net Property, Plant, and Equipment	<u>1,958,809</u>
Total Assets	<u>\$ 2,421,161</u>

See notes to financial statements

ROMULUS HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2004
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 78,477
Tenant security deposit liability	14,938
Accrued expenses	6,782
Deferred revenues	11,250
Accrued liabilities-other	10,358
Due to other funds	<u>67,368</u>
Total Current Liabilities	189,173
Noncurrent Liabilities:	
Accrued compensated absences	<u>40,634</u>
Total Liabilities	<u>229,807</u>
Net Assets:	
Invested in capital assets	1,958,809
Unrestricted net assets	<u>232,545</u>
Total Net Assets	<u>2,191,354</u>
Total Liabilities and Net Assets	<u>\$ 2,421,161</u>

See notes to financial statements

ROMULUS HOUSING COMMISSION
**COMBINED STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS**
 Year Ended December 31, 2004
 =====

OPERATING REVENUES:

Dwelling rent	\$ 171,119
Total operating revenues	<u>171,119</u>

OPERATING EXPENSES:

Administration	172,445
Tenant services	33,744
Utilities	50,759
Ordinary maintenance and operation	182,626
General expenses	70,470
Casualty losses	(7,042)
Depreciation	<u>135,113</u>
Total operating expenses	<u>638,115</u>

Operating income (loss)	<u>(466,996)</u>
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NONOPERATING REVENUES:

Investment interest income	2,072
Other income	3,704
Operating grants	324,489
Capital grants	<u>286,063</u>

Total nonoperating revenues	<u>616,328</u>
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Change in net assets	149,332
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Net assets, beginning	<u>2,042,022</u>
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Net assets, ending	<u><u>\$ 2,191,354</u></u>
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See notes to financial statements

ROMULUS HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2004
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Cash flows from operating activities:	
Cash received from dwelling rents	\$ 174,065
Cash payments to other suppliers of goods and services	(299,034)
Cash payments to employees for services	(151,675)
Cash payments for in lieu of taxes	<u>(11,797)</u>
Net cash (used) by operating activities	<u>(288,441)</u>
 Cash flows from noncapital financing activities:	
Tenant security deposits	1,803
Operating grants	323,985
Other revenue	<u>3,704</u>
Net cash provided by noncapital financing activities	<u>329,492</u>
 Cash flows from capital and related financing activities:	
Capital grants	286,063
Payments for capital acquisitions	<u>(286,063)</u>
Net cash provided by capital and related financing activities	<u> </u>
 Cash flows from investing activities:	
Receipts of interest and dividends	<u>2,072</u>
Net cash provided by investing activities	<u>2,072</u>
 Net increase(decrease) in cash	43,123
 Cash, beginning	<u>274,039</u>
 Cash, ending	<u><u>\$ 317,162</u></u>

ROMULUS HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2004
=====

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 317,162
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 317,162</u>

Schedule reconciling operating income to net cash flow from operating activities:

Operating income(loss)	\$(466,996)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	135,113
Bad debt allowance	2,693
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(3,505)
Prepaid expenses	(651)
Increase (decrease) in liabilities:	
Accounts payable	29,949
Accrued wages/payroll taxes	2,267
Accrued compensated absences	7,835
Accrued payments in lieu of taxes	(536)
Accrued liabilities-other	1,632
Deferred revenues	<u>3,758</u>
Net cash (used) by operating activities	<u>\$(288,441)</u>

See notes to financial statements

ROMULUS HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Romulus Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Romulus Housing Commission is a component unit of the City of Romulus, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Romulus on February 11, 1971, consisting of a five member board appointed by the City Mayor and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Romulus Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3055, the Housing Commission constructed, maintains and operates 100 units of subsidized housing in the City of Romulus, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set

of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Romulus Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Building improvements	15 years
Furniture, equipment and machinery	
- administration	3 - 7 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts

expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, an employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all used vacation leave.
- * Sick leave, an employee after ninety(90) days of service shall be credited sick leave on the basis of one day for each full month of employment, but there will not be any cash payments for unused sick leave.
- * Personal leave, there is not a policy for personal leave.

The amount of accumulated benefits at December 31, 2004, was \$45,149, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the December 31, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					<u>Carrying Value</u>
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Comerica Bank	<u>\$322,050</u>	<u>\$</u>	<u>\$</u>	<u>\$ 322,050</u>	<u>\$ 317,162</u>

Reconciliation to Cash on Balance Sheet

Cash	\$ 317,162
Unrestricted investments	-
Restricted cash	-
Total	<u>\$ 317,162</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At December 31, 2004, the receivables were \$6,439 with \$5,058 estimated as uncollectible. Bad debt expense was \$5,095.

Accounts Receivable - HUD

Amounts due from HUD represents the amounts not advanced yet for actual expenses of the programs financed.

Inter-fund Receivables, Payables, and Transfers

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other programs" and "due to other programs" on the statement of net assets. The Capital Fund Program owes the Low Rent Program \$67,368, as of December 31, 2004.

The Capital Fund Program transferred \$45,000 to the Low Rent Program during the fiscal year.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Balance</u> <u>12/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/04</u>
Low Rent Program				
Land	\$ 188,150	\$	\$	\$ 188,150
Buildings	1,512,998			1,512,998
Furniture, equip. & machinery - administration	64,193			64,193
Building improvements	<u>1,415,481</u>			<u>1,415,481</u>
	3,180,822	<u>\$</u>	<u>\$</u>	3,180,822
Less accumulated depreciation	<u>(1,450,574)</u>	<u>\$ (130,350)</u>	<u>\$</u>	<u>(1,580,924)</u>
Total	<u>\$1,730,248</u>			<u>\$1,599,898</u>
 Capital Fund Program				
Building improvements	\$ 77,610	\$ 129,404	\$	\$ 207,014
Construction in progress		<u>156,659</u>		<u>156,659</u>
	77,610	<u>\$ 286,063</u>	<u>\$</u>	363,673
Less accumulated depreciation		<u>\$ (4,762)</u>	<u>\$</u>	<u>(4,762)</u>
Total	<u>\$ 77,610</u>			<u>\$ 358,911</u>
 Combined Totals				<u><u>\$1,958,809</u></u>

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended December 31, 2004, consist of the following:

	<u>Invested in Capital Assets</u>
Balance, beginning	
Investment in fixed assets, net of depreciation paid for from operations	\$ 1,807,858
net of depreciation, not included in contributed capital	<u>150,951</u>
Balance, ending	<u>\$ 1,958,809</u>

NOTE 6: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended December 31, 2004, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Dwelling rents	\$ 171,119	\$
Depreciation	(130,351)	(4,762)
Other operating expenses	<u>(500,254)</u>	<u>(2,748)</u>
Operating (loss)	(459,486)	(7,510)
Nonoperating revenues:		
Operating transfers in (out)	45,000	(45,000)
Investment earnings	2,072	
Operating grants	276,741	47,748
Capital grants		286,063
Other income	<u>3,704</u>	
Change in net assets	(131,969)	281,301
Beginning net assets	<u>1,964,412</u>	<u>77,610</u>
Ending net assets	<u>\$1,832,443</u>	<u>\$ 358,911</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:		
Operating activities	\$(285,693)	\$(2,748)
Noncapital financing activities	326,744	2,748
Capital and related financing activities	-	-
Investing activities	<u>2,072</u>	
Net increase (decrease)	43,123	
Beginning cash	<u>274,039</u>	
Ending cash	<u>\$ 317,162</u>	<u>\$</u>

NOTE 7: OTHER INFORMATION

A. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

B. Pension Plan

The Housing Commission participates in the City of Romulus retirement plan. The pension plan is a pre 1986 401k plan for municipalities. The plan has standard eligibility and vesting provisions. All contributions have been paid to the plan administer in a timely manner. Further details and plan assets are reported under a separate audit report maintained by the City of Romulus. The amount contributed by the Housing Commission was \$5,791 during calendar year.

C. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

D. Implementation of New Accounting Standard

As of and for the year ended December 31, 2004, the Housing Commission implemented GASB Statement Number 34 - Basic Financial Statements -and Management's Discussion and Analysis - State and Local Governments. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

SUPPLEMENTARY INFORMATION

ROMULUS HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 December 31, 2004
 =====

C-3055	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 317,162	\$ 67,368
Accounts receivable-HUD other projects		
Accounts receivable-dwelling rents	6,439	
Allowance for doubtful accounts	(5,058)	
Prepaid expenses	9,073	
Due from other programs	<u>67,368</u>	<u> </u>

Total current assets	<u>394,984</u>	<u>67,368</u>
----------------------	----------------	---------------

Property, plant, and equipment:

Land	188,150	
Buildings	1,512,998	
Equipment	64,193	
Building improvements	1,415,481	207,014
Construction in progress	<u>3,180,822</u>	<u>156,659</u>
		363,673
Less accumulated depreciation	<u>(1,580,924)</u>	<u>(4,762)</u>

Net property, plant and equipment	<u>1,599,898</u>	<u>358,911</u>
-----------------------------------	------------------	----------------

Total Assets	<u>\$ 1,994,882</u>	<u>\$ 426,279</u>
--------------	---------------------	-------------------

Totals

\$ 317,162
67,368
6,439
(5,058)
9,073
67,368

462,352

188,150
1,512,998
64,193
1,622,495
156,659
3,544,495
(1,585,686)

1,958,809

\$ 2,421,161

ROMULUS HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2004
=====

	C-3055 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
 LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 78,477	\$
Tenant security deposit liability	14,938	
Accrued expenses	6,782	
Deferred revenues	11,250	
Accrued liabilities-other	10,358	
Due to other programs	<u> </u>	<u>67,368</u>
Total current liabilities	121,805	67,368
Noncurrent liabilities:		
Accrued compensated absences	<u>40,634</u>	<u> </u>
Total liabilities	<u>162,439</u>	<u>67,368</u>
Net assets:		
Invested in capital assets	1,599,898	358,911
Unrestricted net assets	<u>232,545</u>	<u> </u>
Total net assets	<u>1,832,443</u>	<u>358,911</u>
Total Liabilities and Net Assets	<u>\$1,994,882</u>	<u>\$ 426,279</u>

Totals

\$ 78,477
14,938
6,782
11,250
10,358
67,368

189,173

40,634

229,807

1,958,809

232,545

2,191,354

\$ 2,421,161

ROMULUS HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS**
 Year Ended December 31, 2004

=====

	C-3055 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 171,119	\$
Nondwelling rent	<u> </u>	<u> </u>
Total operating revenues	<u>171,119</u>	<u> </u>
OPERATING EXPENSES:		
Administration	171,847	598
Tenant services	33,744	
Utilities	50,759	
Ordinary maintenance and operation	180,476	2,150
General expenses	70,470	
Casualty losses	(7,042)	
Depreciation	<u>130,351</u>	<u>4,762</u>
Total operating expenses	<u>630,605</u>	<u>7,510</u>
Operating income (loss)	<u>(459,486)</u>	<u>(7,510)</u>
NONOPERATING REVENUES (EXPENSES):		
Operating transfers in(out)	45,000	(45,000)
Investment interest income	2,072	
Other income	3,704	
Operating grants	276,741	47,748
Capital grants	<u> </u>	<u>286,063</u>
Total nonoperating revenues	<u>327,517</u>	<u>288,811</u>
Change in net assets	(131,969)	281,301
Net assets, beginning	<u>1,964,412</u>	<u>77,610</u>
Net assets, ending	<u><u>\$1,832,443</u></u>	<u><u>\$358,911</u></u>

Totals

\$ 171,119

171,119

172,445

33,744

50,759

182,626

70,470

(7,042)

135,113

638,115

(466,996)

2,072

3,704

324,489

286,063

616,328

149,332

2,042,022

\$ 2,191,354

ROMULUS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended December 31, 2004
 =====

	C-3055 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Cash received from dwelling and nondwelling rents	\$ 174,065	\$
Cash payments to other suppliers of goods and services	(296,286)	(2,748)
Cash payments to employees for services	(151,675)	
Cash payments for in lieu of taxes	<u>(11,797)</u>	
Net cash (used) by operating activities	<u>(285,693)</u>	<u>(2,748)</u>
Cash flows from noncapital financing activities:		
Operating transfers in(out)	45,000	(45,000)
Interfund payables/receivables	(504)	504
Tenant security deposits	1,803	
Operating grants	276,741	47,244
Other revenue	<u>3,704</u>	
Net cash provided by noncapital financing activities	<u>326,744</u>	<u>2,748</u>
Cash flows from capital and related financing activities:		
Capital grants		286,063
Payments for capital acquisitions		<u>(286,063)</u>
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Receipts of interest and dividends	<u>2,072</u>	
Net cash provided by investing activities	<u>2,072</u>	
Net increase(decrease) in cash	43,123	
Cash, beginning	<u>274,039</u>	
Cash, ending	<u><u>\$ 317,162</u></u>	<u><u>\$</u></u>

Totals

\$ 174,065

(299,034)

(151,675)

(11,797)

(288,441)

1,803

323,985

3,704

329,492

286,063

(286,063)

2,072

2,072

43,123

274,039

\$ 317,162

ROMULUS HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2004
=====

C-3055	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 317,162	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 317,162</u>	<u>\$</u>

Schedule reconciling operating income to net cash flow from operating activities:

Operating income(loss)	\$ (459,486)	\$ (7,510)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	130,351	4,762
Bad debt allowance	2,693	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(3,505)	
Prepaid expenses	(651)	
Increase (decrease) in liabilities:		
Accounts payable	29,949	
Accrued wages/payroll taxes	2,267	
Accrued compensated absences	7,835	
Accrued payments in lieu of taxes	(536)	
Accrued liabilities-other	1,632	
Deferred revenues	<u>3,758</u>	
Net cash (used) by operating activities	<u>\$ (285,693)</u>	<u>\$ (2,748)</u>

Totals

\$ 317,162

\$ 317,162

\$ (466,996)

135,113
2,693

(3,505)
(651)

29,949
2,267
7,835

(536)
1,632
3,758

\$ (288,441)

ROMULUS HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended December 31, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 276,741
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>333,811</u>
	Total		<u>\$ 610,552</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ROMULUS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
 Year Ended December 31, 2004
 =====

FDS Line Item No.		C-3055 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 317,162	\$ _____
100	Total cash	<u>317,162</u>	<u> </u>
	Receivables:		
122	A/R-HUD other projects		67,368
126	A/R-tenants-dwelling rents	6,439	
126.1	Allowance for doubtful accounts-dwelling rents	(5,058)	<u> </u>
120	Total receivables, net of allowance for doubtful accounts	<u>1,381</u>	<u>67,368</u>
	Other Current Assets:		
142	Prepaid expenses and other assets	9,073	
144	Interprogram due from	<u>67,368</u>	<u> </u>
	Total other current assets	<u>76,441</u>	<u> </u>
150	Total current assets	<u>394,984</u>	<u>67,368</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	188,150	
162	Buildings	1,512,998	
164	Furn, equip & mach-admin.	64,193	
165	Building improvements	1,415,481	207,014
166	Accumulated depreciation	(1,580,924)	(4,762)
167	Construction in progress	<u> </u>	<u>156,659</u>
160	Total fixed assets, net of accumulated depreciation	<u>1,599,898</u>	<u>358,911</u>
180	Total noncurrent assets	<u>1,599,898</u>	<u>358,911</u>
190	Total Assets	<u>\$1,994,882</u>	<u>\$ 426,279</u>

Totals

\$ 317,162

317,162

67,368

6,439

(5,058)

68,749

9,073

67,368

76,441

462,352

188,150

1,512,998

64,193

1,622,495

(1,585,686)

156,659

1,958,809

1,958,809

\$ 2,421,161

ROMULUS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2004
 =====

FDS Line Item No.		C-3055 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 67,216	\$
321	Accrued wage/payroll taxes payable	2,267	
322	Accrued compensated absences	4,515	
333	Accounts payable-other government	11,261	
341	Tenant security deposits	14,938	
342	Deferred revenues	11,250	
346	Accrued liabilities-other	10,358	
347	Interprogram due to	<u> </u>	<u>67,368</u>
310	Total current liabilities	121,805	67,368
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>40,634</u>	<u> </u>
300	Total liabilities	<u>162,439</u>	<u>67,368</u>
	Equity:		
508.1	Invested in capital assets	<u>1,599,898</u>	<u>358,911</u>
508	Total equity	1,599,898	358,911
	Net Assets:		
512.1	Unrestricted net assets	<u>232,545</u>	<u> </u>
513	Total net assets	<u>1,832,443</u>	<u>358,911</u>
600	Total Liabilities and Equity/Net Assets	<u>\$1,994,882</u>	<u>\$ 426,279</u>

Totals

\$ 67,216

2,267

4,515

11,261

14,938

11,250

10,358

67,368

189,173

40,634

229,807

1,958,809

1,958,809

232,545

2,191,354

\$ 2,421,161

ROMULUS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2004
 =====

FDS Line Item No.		C-3055 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 171,119	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>171,119</u>	
706	HUD PHA grants	276,741	47,748
706.1	Capital grants		286,063
711	Investment income-unrestricted	2,072	
715	Other revenue	<u>3,704</u>	
700	Total revenue	<u>453,636</u>	<u>333,811</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	90,944	
912	Auditing fees	4,200	
914	Compensated absences	7,835	
915	Employee benefit contributions-adm.	37,332	
916	Other operating-administrative	31,536	598
	Tenant Services:		
921	Tenant services-salaries	24,875	
923	Employee benefit contributions	8,626	
924	Tenant services-other	243	
	Utilities:		
931	Water	32,553	
932	Electricity	10,077	
933	Gas	8,129	
	Ordinary maintenance and operation:		
942	Ordinary maint & oper-mat'ls & other	9,524	
943	Ordinary maint & oper-contract costs	170,952	2,150
	General expenses:		
961	Insurance premiums	54,114	
963	Payments in lieu of taxes	11,261	
964	Bad debt-tenant rents	<u>5,095</u>	
969	Total operating expenses	<u>507,296</u>	<u>2,748</u>
970	Excess operating revenue over operating expenses	<u>(53,660)</u>	<u>331,063</u>

Totals
\$ 171,119

171,119
324,489
286,063
2,072
3,704
787,447

90,944
4,200
7,835
37,332
32,134

24,875
8,626
243

32,553
10,077
8,129

9,524
173,102

54,114
11,261
5,095

510,044

277,403

ROMULUS HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2004
 =====

FDS Line Item No.		C-3055 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	(53,660)	<u>331,063</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses-noncapitalized	(7,042)	
974	Depreciation expense	<u>130,351</u>	<u>4,762</u>
	Total other expenses	<u>123,309</u>	<u>4,762</u>
900	Total expenses	<u>630,605</u>	<u>7,510</u>
	Other financing sources(uses):		
1002	Operating transfers in(out)	<u>45,000</u>	(45,000)
	Total other financing sources(uses)	<u>45,000</u>	(45,000)
1000	Excess (deficiency) of operating revenue over(under) expenses	(131,969)	281,301
1103	Beginning Net Assets	<u>1,964,412</u>	<u>77,610</u>
	Ending Net Assets	<u>\$ 1,832,443</u>	<u>\$358,911</u>

Totals

277,403

(7,042)

135,113

128,071

638,115

149,332

2,042,022

\$ 2,191,354

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Romulus Housing Commission
Romulus, Michigan

We have audited the financial statements of the business-type activities of the Romulus Housing Commission, Michigan, (Housing Commission) as of and for the year ended December 31, 2004, which collectively comprise the Housing Commission's basic financial statements and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standards
Romulus Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we have noted certain matters that we reported to management of the Housing Commission, in a separate letter dated August 23, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Handlett, CPA, PC

August 23, 2005

Barry E. Gaudette, CPA, P.C.

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**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Romulus Housing Commission
Romulus, Michigan

Compliance

We have audited the compliance of the Romulus Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on the Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Commission's a compliance with those requirements.

In our opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Romulus Housing Commission
Page Two

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated August 23, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam E. Taudette, CPA, PC

August 23, 2005

ROMULUS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2004
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

CFDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	\$276,741	No	O	N/A	N/A
14.872	Capital Fund Program	<u>333,811</u>	Yes	O	N/A	N/A
Total		<u>\$610,552</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

ROMULUS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
December 31, 2004

=====

B. Financial Statement Findings	None
C. Federal Award Findings and Questioned Costs	None

ROMULUS HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2004
=====

There were two findings in the prior year audit report for the fiscal year ended December 31, 2003. The findings were as follows:

Tenant Accounting Discrepancies:

The following discrepancies were noted during the review of 10 tenant files.

- a. 2 files were not reexamined for two years,
- b. 1 file lacked third party verification, and
- c. 1 file used the wrong utility allowance.

After a review of tenant files during the current year audit and interviews of staff, this prior year finding has been corrected.

Davis Bacon Act Violations:

The Commission did not have copies of all the certified payrolls and did not conduct any employee interviews.

After a review of the Housing Commissions records and interviewing the Executive Director, this prior year finding has been corrected.

ROMULUS HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
December 31, 2004

=====

Adjusting journal entries were not necessary for the Low Rent Program
or the Capital Fund Program.

ROMULUS HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

DECEMBER 31, 2004

ROMULUS HOUSING COMMISSION
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DECEMBER 31, 2004

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Romulus Housing Commission

We have audited the financial statements of the Romulus Housing Commission ("Housing Commission") as of and for the year ended December 31, 2004, and have issued our report, thereon, dated August 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Sam E. Thudich, CPA, PC

August 23, 2005

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Romulus Housing Commission

We have audited the financial statements of the Romulus Housing Commission ("Housing Commission") as of and for the year ended December 31, 2004, and have issued our report, thereon, dated August 23, 2005. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

August 23, 2005

ROMULUS HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
December 31, 2004
=====

Computer Backup

The Housing Commission daily backs up the information on the computer, but does not store the disk in a fire proof safe.

We recommend that the Housing Commission store the backup disk in a fire proof safe or stored off site.

Invoice markings

The Housing Commission invoices are currently not usually marked after being approved for payment.

We recommend that the Executive Director stamp the invoices with a "approve or deny" stamp before the check is prepared. Also, before the check is mailed to the payee, the Housing Commission should mark the invoice with a "paid and date paid" stamp. These markings will prevent an invoice from being paid twice and provide another control on approval.

Prior year comments and recommendations

We would like to commend management and the board for implementing and resolving all of the comments made in the prior year letter.

ROMULUS HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
December 31, 2004

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries necessary.